

GROUND RULES PODCAST TRANSCRIPT

EPISODE 6: BUILDING NEW YORK FROM EAST HARLEM WITH ED POTEAT

Editor's note: This version preserves the Q&A format and core substance of the conversation while lightly tightening for readability, correcting transcript artifacts, and maintaining the original conversational style.

INTRODUCTION

David Shamshovich

Welcome everybody to another episode of Ground Rules. Today we had Ed Poteat, the founder and president of Carthage Advisors. He was spectacular and had a great understanding and mastery of affordable housing, having worked in it for a while. He discussed things that were happening in the '90s moving from Yale to investment banking to working in real estate, winning some RFPs, and now developing affordable housing.

Camila Almeida

The conversation was amazing. We had the pleasure to work with him in the past. Nicest person to work with, very laid back. We talked about some incredible deals that he made with the city back in the day, buying properties for a very cheap price to develop. So it was very interesting. One dollar!

David Shamshovich

One dollar! The city was just giving away properties. Essentially they were saying, "Well, if you're crazy enough to go into these neighborhoods and develop there, we'll just give it away and do what you gotta do." We talked to Ed about how he got into real estate, how he got into affordable housing, how he was able to do his first deal, the RFPs that he did, the state of affordable housing now, the opportunities that are present, and lots more. He's very engaging, and I think everybody here is gonna really enjoy this episode.

Ed, before we begin, I have to do my introduction, which I spent a lot of time on, so I just have to get that out there. His mother was a maid. Is that true?

Ed Poteat

She was a maid. She worked at a bakery in, like, their cash management division.

David Shamshovich

At the same time?

Ed Poteat

Initially she worked as kind of a teller. She lost that job. She worked in a bakery for a second, lost that job during the recession in the '90s. '88 to '92 - it was a very bad recession. We don't talk much about it now. And then to make ends meet, she became a maid.

Camila Almeida

I have to say, she is the nicest lady.

Ed Poteat

And then she came to work for me for 10 years when I was a broker. She was like, "Listen, I'm a little older and I'm just trying to make ends meet." And I was like, "Ma, you're a great salesperson." She's like, "Really?" I was like, "Why don't you come join me and work as an agent and let's see what happens?" She was lights out!

Camila Almeida

How was it mixing family and business?

Ed Poteat

She was good. She actually let me manage her. And there weren't a lot of issues because she was making a lot of money!

David Shamshovich

And your dad was a factory worker, right?

Ed Poteat

That's right.

David Shamshovich

When you came home to Harlem with a Yale degree and said you were going into real estate, your parents thought you had lost your mind. More than 25 years after Ed first sketched it out on a Harlem community board, he finally built it. A tower of affordable apartments one block from the Apollo on a site he had to fight to buy. My guest is Ed Poteat of Carthage Advisors. Welcome to Ground Rules.

Ed Poteat

Thank you, man. Happy to be here.

FROM EAST HARLEM TO REAL ESTATE

David Shamshovich

In typical *Ground Rules* fashion, this conversation is open floor. It's organic. We already started with the sort of the humble beginnings that you came from. And I sort of relate to this. I came from an immigrant family. I was Mitchell-Lama as well in Coney Island. And I wouldn't say I 'made it,' but if you look at my parents, who came from the Soviet Union, they would say 'you certainly made it.' Right? So what was your early trajectory? What was your origin story as the superhero that you are now?

Ed Poteat

Interesting. I grew up in East Harlem in the '80s, and all the horror stories that you heard about were completely true. The crack epidemic was very real, and I had the benefit or detriment of living through it. I luckily, in fifth grade, had a teacher who said, "You're bright. Like, you're really smart. You shouldn't be in public schools. You shouldn't be here at all."

They put me in a program called Prep for Prep, which took talented kids from public school and put them in private schools. The program was paid for by various funders, and then the schools gave you financial aid based on need. So I had the benefit of going to Horace Mann in seventh grade, and that really was the turning point. Horace Mann, and it still is a very good private school, was at that time the number one private school in New York City. So I spent five years there, and the rest was kind of history because from Horace Mann, I went to Yale, and from Yale I came back home and said, "All right, I got all these fancy degrees. Let me see if I can do something impactful in my community."

David Shamshovich

And what was your thinking at the time? Did you have a plan?

Ed Poteat

The reason that I laugh is, this is crazy, the biggest fear was not being a drug dealer on the corner or being a crackhead. Literally. And I was like, "I don't want to do those things. So let me run as fast as I can to not do those things."

So there wasn't a plan. It was like, well, if I keep working hard, I won't be that.

So I came back home in the mid-'90s from college. I wanted to give back to my community. And at the time, gentrification wasn't an issue at all, as you know. It was that these neighborhoods were kind of bombed out, right? Whether it was the Bronx, all of Northern Manhattan, many parts of Brooklyn. And the thinking was if you could fix the physical element in the community, you can take care of the vacant lots and the vacant buildings. And there were a lot of them. You could take care of crime. You could house people, and you could create jobs. And I thought, wow, if I can do that, that'd be kind of neat. So I set out, pretty much after being a banker for two and a half years, three years, to just start doing that type of work.

David Shamshovich

How did you get into banking in the first place?

Ed Poteat

I went to Yale and I was an economics major. And the primo job was to work on Wall Street. I missed it my first year. I was a terrible interviewee. My second year out of school, I had a buddy who worked for JPMorgan Chase. He mentored me, and said, "All right, this is what you want to go for, and this is how you want to do it." I got a job in real estate investment banking, spent two years doing that, one year as a loan officer, and then I was ready to be a developer at 27, 28 years old.

David Shamshovich

I think it's a good age because you're not yet smart enough, but you're not that dumb. You don't know where you can reach, but you're not looking ahead at the difficulties, so you're willing to try things.

Ed Poteat

You also don't have an expense load. You don't have a family, you don't have a house, you don't have kids. And so you could live off of very little for a while because you're not burdened by that expense load.

Camila Almeida

You're willing to take more risks.

David Shamshovich

But it's a pretty big jump from being a loan officer, which is a job that's more secure. Being a developer, it's expensive. There's a lot of liability, personal guarantees. How do you say to yourself, "Well, I'm tired of seeing people come to me for money for these projects. I want to actually do these things"?

HOW THE BUSINESS BEGAN**Ed Poteat**

The reason I'm laughing is it sounds like it was a perfect plan now, but going through it, it really wasn't. Me and my buddy started a firm that since broke up, called Horsford & Poteat Realty. His last name was Horsford, my last name was Poteat. Really creative company!

He was out of college, I was out of college, and his sister joined. Actually, I joined their small family firm. So it was me, him, and his sister. We were frat brothers in college. My senior year he says, "Listen, my family has one or two brownstones in Harlem. We're thinking of trying to take the very small family business and grow it." And I was like, "Wow, real estate sounds kind of cool," right? We're in my dorm room at the time, and I'm like, "Let me join you guys and let's see what happens."

We do this for a few years. We had started off wanting to be property managers because we figured that was a good way to get out there. We were losing money left and right. And we turned to each other and said, "You know what, we'll give this one more year." And we were working at this part-time.

David Shamshovich

At least you were failing with a full-time job.

Ed Poteat

Well, we said, maybe the problem is we're not giving this enough time. So if we leave our other jobs, maybe we can make it.

David Shamshovich

So you said, "I'm gonna walk the tightrope without a net."

Ed Poteat

Our backup plan was we'll just go to B-school. We went to decent colleges. This would be great for an essay, and we'll just find ourselves at some business school and then kind of lick our wounds. So we left our jobs, we committed to the business full-time, and then luckily, Giuliani at the time, New York City was the largest landlord in New York City.

David Shamshovich

Still is, right?

Ed Poteat

Maybe, but by far they were the largest landlord. All the vacant buildings in Brooklyn, all the vacant buildings in Harlem, vacant lots, they had possession of all these properties. Giuliani said, who knew nothing about real estate, but what he said was, "Let's get out of this business. Let's dispose of all these assets to whoever would be dumb enough to take them." I can't make this up. And so our first deal, we got six buildings in Harlem for one dollar each. We responded to an RFP.

Camila Almeida

One dollar?

Ed Poteat

One dollar each. Luckily, the commissioner at HPD in the late '90s was a woman named Debbie Wright. And she saw that the big boys were taking blocks of properties because there were just properties everywhere. And she said, "We gotta create a program so that smaller minority local developers or property managers can get in the game."

And they came up with a program called the Neighborhood Entrepreneurship Program. It was meant for very small firms that could handle 50, 60 units. We submitted for an RFP, we got six buildings, small tenements deep in Harlem, and the rest was history.

David Shamshovich

Is this to develop them or to own them and run them?

Ed Poteat

To develop them and own them and run them. So they had an allocation of tax credits specifically dedicated to the program. So funding was there. And then they walked you through looking at underwriting, dealing with the contractor, so on and so forth. And we were property managers, so we actually

knew that part of it. I was a banker, so I got underwriting really fast. And my partner was an engineer, so he got construction management really fast. And from '98 to 2005, we got 20 buildings from the city. Smaller tenements, but we got 20 buildings from the city. And we were off to the races after that.

David Shamshovich

How do you respond to an RFP like that? I think I heard an Adam Sandler joke once where he's like, "I always wanted to do a backflip, but I just never knew how to get started." So, how did you get from where you were to a backflip? How did you get from "I'm going to do it" to actually getting it, where other people, even at smaller firms, probably had way more experience?

Ed Poteat

Thank God for Debbie Wright. She made the RFP such that it kind of fit our firm. You had to manage 50 units or over. As you guys know, 50 units is nothing. We had, I think, maybe 80 units under management at the time, which was still nothing. You had to have residents in the community you were submitting for. So we were in Harlem. Firms in Brooklyn had to live in Brooklyn, or the Bronx.

You had to have maybe \$100,000 in the bank. Or be able to access \$100,000. So we, like, begged friends and family and were like, "All right, here, we can show it." It was more money than I could possibly conceive of. But we had gathered that, and that was it. We submitted for the RFP, won the first one, won a second one, and then programs like the Third Party Transfer Program, we won a few of those. And then we accumulated 20 buildings in seven years, eight years.

Camila Almeida

Did you redevelop all these buildings or did you keep some rent-stabilized?

Ed Poteat

Many of them were vacant. We got 14 vacant buildings and six occupied buildings, but they all had to be renovated.

David Shamshovich

Was it full gut, or did you have to do demo and then ground-up? Or a combo?

Ed Poteat

Pretty much demoed. The vacant buildings were vacant. And even the occupied buildings were in bad shape. Bathrooms where you could see floor to floor, down to the unit below. We had to relocate all the tenants, do checkerboarding, renovate line by line.

David Shamshovich

So you said HPD gave you a crash course. But understanding the legal, the architectural, the monetary, all that stuff. How do you get that stuff under your belt and actually start? Because you're going literally from zero to, like, 100 miles an hour.

Ed Poteat

When I was a banker, my clients were affordable housing developers. I was a junior loan officer going out on client calls and talking to developers. It was the best business school in the world. I would sit there every client call and say, "How'd you do that? How'd you build the warehouse or change the warehouse to rentals or lofts?" I was talking to developers in Brooklyn at the time when Fort Greene and Clinton Hill were turning. And because I was their loan officer, they had to talk to me.

David Shamshovich

They had no choice. Captive audience.

Ed Poteat

They would take me out to lunch, and for hours I would just drill them on how they ran their business. Little did they know!

David Shamshovich

I know you had a bunch of projects in Harlem, but what was one that really stands out and why?

EARLY LESSONS IN DEVELOPMENT

Ed Poteat

I can laugh now because New York City has changed so much. What I'm left with are just all these, they were bad stories back then, but funny stories now that when I tell them, people are like, "Oh my God." I'm like, "But this is how New York City was in the late '90s and early 2000s."

So our first project, we get six buildings, on one block. 149th Street between 7th and 8th Avenue. We were super excited. It's a \$10 million project, which was massive for us at the time.

So we get the allocation of tax credits from HPD, funding's lined up. We start building, we hire a very experienced builder. We're off to the races. Christmas shows up, and two things happened. One, he calls right before Christmas and says, "We found a dead body in the building. And we have to shut down the site for a second."

David Shamshovich

Now that it's a crime scene.

Ed Poteat

Right. Because back then in Harlem, again, it was very dangerous. When they killed people, they would throw them in vacant buildings. Like, where else would people look? So as we're renovating this vacant building, or he is, he's like, "We have to stop this for a second." So that's the first funny story.

The second funny story, he also decides not to pay his vendors during the holidays. So one of his vendors torches one of the buildings. I can't make this up! Luckily they doused the fire. It didn't cause too much damage. But that was our first introduction to development.

David Shamshovich

That's the school of hard knocks. I'm surprised you continued after those experiences. But you did, you finished the projects. It was successful.

Ed Poteat

It was successful.

David Shamshovich

And then what kept you in that affordable housing realm? Did you ever pivot to market rate or mixed income, or are you just in affordable housing? And why is that? I know you want to give back to the community, but maybe there's more to that.

Ed Poteat

We've done market-rate projects, often by accident. It'll be accommodated within affordable housing projects, like Marcus Garvey Village. We have one affordable project, one market-rate project, because that's the package that we got.

My preference is to always build affordable because I'm mission-driven. I grew up in Mitchell-Lama housing. I know what the value of housing means to working-class families more than most. And so I've always had a really enjoyable time building affordable housing.

I teach affordable housing finance at Columbia. And I tell my class the reason I've been in the field such a long time is you get to do well and do good at the same time. So from 20 to 30, it was about doing good, helping my community, helping people. And I love that. And then when you get in your early 30s, like, "All right, well, I need to actually start making a living."

David Shamshovich

So doing good's not gonna feed the family.

Ed Poteat

Doing good's not gonna feed the family, not gonna let me get a wife, get a house. But then I learned you could actually do well in affordable housing. And so in class, I point to Stephen Ross. Like, listen, Stephen Ross started out doing affordable housing. Donald Trump, not him, but his daddy, Fred Trump, started out doing affordable housing.

David Shamshovich

That's where I grew up. I grew up in Trump Village.

Ed Poteat

So that's what's kept me in the business, is that I get to do well and do good at the same time. So why would I leave?

THE CHANGING AFFORDABLE HOUSING LANDSCAPE

David Shamshovich:

What are the differences between developing the two, and how does one get into it?

Ed Poteat

There was a shift after the last recession to move away from thinly capitalized developers. Before then, if you had the intent to build affordable housing, the city really worked with you. Because they had, again, all these assets all over the place to give away anyway. So it just made sense.

In 2008, thinly capitalized developers either couldn't finish or went out of business, and same for nonprofits. There was a shift to better-capitalized

developers doing larger projects, which makes sense because from the city's point of view, their goal is to get as many units done as possible. So if the city does 10,000 units with a hundred different groups, or 10,000 units with 10 groups or 20 groups, it's just easier for the city to manage, and they have surety of execution by working with larger developers that they know are going to get it from start to finish.

So I had to pivot and really start to think about raising capital, growing out our scale so we could keep up and keep doing affordable housing. So that's what we've been doing over probably the past decade, actually raising money, getting fairly good at that, and then doing larger projects.

David Shamshovich

When I think about larger projects, I'm thinking about tax credits, bonds, other subsidies from different agencies, whether it's federal, city, state. When I think of raising money, I'm thinking about a startup or some tech company in Silicon Valley. Is that at all the same? How are you raising money? What are the people getting in return? Are they getting equity? How does that all work?

Ed Poteat

Sure. So your previous question was how is affordable housing different than building market-rate housing, right? There's a few key differences. Market-rate housing, when it works, is a lot more profitable, obviously. But that's when it works. So if you're caught kind of like musical chairs, if the music stops and you have a market-rate project, you have a problem.

What's great about affordable housing is that there's no market risk. So when we're raising money, we say, "Guys, girls, we can't give you the type of returns you're going to get on market housing. But there's no risk. It's guaranteed." So you only have the risk of execution. As long as you can believe that I can go from start to finish, and I've been doing this now for a couple of decades, we'll get the project done.

So that's our pitch, which is that we're actually gonna give you back your capital with very little risk. You don't have to worry about, is the Strait of Hormuz gonna stay closed? Is inflation gonna go up with interest rates? And now your market-rate deal that you underwrote at 7% interest is now 9%, and now you have a problem.

You don't really have interest-rate risk with affordable housing because you're raising 30-year bonds. Your interest rates are capped. You don't have market risk. And so that's the pitch that we make when we raise capital. It's a safe return with us.

David Shamshovich

But what about the timing risk? Nowadays the queue, two, three years to get funding on a project. So the timing risk, you're raising money, people bail on you. How do you deal with that, or is it different from what you experienced when you first started?

Ed Poteat

Having been in cash crunches often as a developer, that's almost kind of how the business goes. We now try to be overcapitalized on projects because we know something's going to go wrong. What's great is you just have to be able to wait that period. And that's hard. That could be harder than you think. But if you can stomach a year delay, you know the product's gonna work.

David Shamshovich

Well, if you're paying only a buck for it, so you don't have any debt service, it may be a little bit easier, right? I don't know if that's happening nowadays.

Ed Poteat

But you have pre-development costs. So you pay the architect half a million dollars, engineer a couple hundred thousand dollars. You either buy the site or you have an option on the site. All those things cost money. And so you have to really know you can carry it.

So we're now in a position where we can. But I had to be educated that, like, if you need \$500,000, raise \$700,000. Because something's gonna happen in the process that you don't even see, and then you'll have to tap extra capital to make that project work.

CREATING OPPORTUNITIES FOR THE NEXT GENERATION

David Shamshovich

So now I want to turn to something that I alluded to before, which is being a Black developer. I don't know what the statistics are now, but I assume it's similar, where it's a small percentage of the developer population, as I would assume females are. That's just an assumption. I don't have actual statistics.

Camila Almeida

I think it's pretty even.

Ed Poteat

I think it's pretty bad both ways.

David Shamshovich

I think Richard Roberts has spoken a little bit about this also, which is the difficulty of developing as a result. But similarly to when you go to Yale, now you're exposed to a bunch of people. Had you not had that opportunity, you wouldn't have been, and they wouldn't have given you the chance just because of the color of your skin.

So I wanted to go through, and I know you've spoken about this a little bit, but it would be interesting to understand what you faced, how you overcame it, and does that still happen now?

Ed Poteat

It's a conversation I'm having with other large Black developers now, is what are we doing about the next generation up? Because we somehow, you know, robbed Peter to pay Paul, but figured out how to get here. And we're then looking back, saying, "Well, wait a second, there's no one coming behind us." Part of that is, again, I talk about Debbie Wright. Rich Roberts was a commissioner at HPD.

David Shamshovich:

That's true.

Ed Poteat:

And he did very similar type work. He really helped small developers be able to have a chance. Again, the city had a lot of properties. So the city was like, "Listen, if you're dumb enough to go in the Bronx, if you're dumb enough to go to Brownsville in Brooklyn, if you're dumb enough for that, we'll give you the properties." Those opportunities no longer exist, right? The game is out. Harlem is a gentrified neighborhood. Crown Heights keeps growing.

David Shamshovich

It's not the place that I grew up. It's totally different from when I grew up.

Ed Poteat

They're building, you have Brookville now in the Bronx with those high-rises in the Piano District. So land is just a lot more scarce and it's not cheap. So it's still tough being a Black developer. However, we have a lot of experience. The developers that I know who are at our level also have a lot. Again, we all started around the same time, like 25 years ago.

David Shamshovich

Is there a society that I should know about? Is there, like, an underground society like that?

Ed Poteat

We have an organization called the New York Real Estate Chamber, which is a group of Black and brown developers. But again, we all kind of started around the same time. So it's not as tough for us anymore because we've been doing this a long, long time.

For someone coming up, and when I talk to my students at Columbia, I say, "Listen, spend your time raising capital." And they're like, "Well, what about, you know, I have this great site and I want to do this, this, this, and then I have this deal." And I'm like, "Great, I'm sure that you have a deal that you're working on. Raise capital."

Spend a year, a year and a half, two years telling your story over and over and over again to people that can fund you. Gain their trust, gain their commitments. Because if you find a deal and you can't raise the capital, you're done. You're done.

So even if you have the perfect deal, if you don't have capital, you'll run up on someone that will give you capital at rates that are so high that you'll be finished. They'll make money, but you're not gonna make anything. It'll be predatory equity, as I call it. You've raised the equity, but the rates are so high that you don't have anything to show for it.

David Shamshovich

It's sort of a hard thing to think about because it's the cart before the horse, where you're pitching something you haven't actually gotten. So it's hard, and it's like, well, what do you do first? It's tough because, "Well, do you have a deal?" "No, I'm just shopping around deals. I will have one soon." How do you make that kind of pitch to someone when you're talking? I assume it's multiple conversations, similar to business development, right?

Ed Poteat

I mean, you're going to hear no 20 times. Just know that going in. But you have a thesis. Whether it's, I can build modular housing in the Bronx cheaper than someone else can. Or I will focus on places of worship and somehow get costs at a basis that's less than someone else. Or I have an architecture background, so I can design buildings in a way that's cheap and efficient.

Whatever your thesis is, that's the value add. Or, I'm just gonna work really hard. I have great schooling, I'm gonna work really hard and really hustle and find deals. Whatever that thesis is, you'll find someone that'll say, "You know what, I'll take a chance on you."

But you first have to get that committed capital. And so that's what I tell anyone, whether it's a Black developer, a young developer, a female developer, is go through the knocks of spending the year and a half telling a story over and over and over again so that you can say, "Yeah, I can turn to someone or someones and raise three, five million dollars when that deal is ready." This is New York City. You'll find deals. There's all types of properties everywhere.

David Shamshovich

But not money.

Ed Poteat

But you won't find money.

WHY CITIES SUCCEED OR FAIL

David Shamshovich

You mentioned teaching at Columbia. That's another way you are giving back to the community. You've done a TED Talk. And you are also writing a book? What's your book about?

Ed Poteat

The book is about why certain cities fail. You know, they say you spend part of your life dealing with the pain that you had as a kid and trying to figure out your life. Growing up when I did, where I did, it was rough. So I spent a lot of time trying to understand how it happened. How did they let communities get this bad for so long?

And so I got my master's in urban planning to just understand how cities work. And then wrote a book about how cities fail. New York City failed in the '70s, right? That's why the '80s were so bad, because it went bankrupt in the '70s. We had all these vacant properties in the '80s because it went bankrupt in the '70s.

And other cities went through that cycle. So understanding trends like the deindustrialization of older cities. That's a real thing. So that's why Newark, New Jersey, and Bridgeport, Connecticut, and parts of Philadelphia, and Cleveland, Ohio, all have similar stories because they all went through the same thing. So kind of understanding that and then understanding what certain cities got right, to then say, "Okay, here's what cities got right. Other cities should be doing that type of work." And that was what the book was about.

David Shamshovich

That's very interesting. And I remember that time. I was born in the early '80s, but the repercussions of the late '80s and early '90s, I remember. I did not walk into certain neighborhoods. I did not take certain trains, and there were certain things that you just didn't do. And you were very cognizant of it.

But what is it that you found, turning back? What is it that we're doing now that's right? Because right now people are still complaining, but really things are pretty great. Like, I'm going down the street and maybe I'll see a crazy person, but I can sort of ignore them and I'm not in danger, right? It's not like San Francisco where you walk down the street and you're accosted by homeless people that are very aggressive.

So New York is way better than it was, like leaps and bounds better, even though people were complaining about it after COVID. Is there a possibility that we go back down the '70s route where we have that depreciation once again? Is that something that you see, like the trend of, okay, now we're at that level, is it possible for us to go down? And what are the things that you're seeing now that could potentially be foreshadowing that kind of thing?

Ed Poteat

One of the factors that makes cities work is the size of the population. People will ask me, "Ed, how did Harlem turn?" Because I've done a lot of work in Harlem. And I'll tell them it wasn't anything special about Harlem. It was the fact that New York City in 1990 had 7 million people. By 2015, there were 8.5 million people. The size of Philadelphia, Philadelphia's a big city, landed in New York City. And that created all types of development opportunities all over the place.

That's why Williamsburg and Jersey City and Harlem and the South Bronx all kicked up at the same time. It wasn't because they were doing something special in Jersey City or something special in Crown Heights. It's because you had all these people that needed housing.

And so when cities understand how to grow their populations, good things tend to happen. Vice versa, when cities don't get that and they start losing people, bad things tend to happen. So, for example, the story of Baltimore. We almost did work down in Baltimore for a second.

And what got me was we won an RFP. This is 2007. We won an RFP, we went after 10 homes. If you know Baltimore, there's vacant row homes everywhere. And the city said, "Okay, well, you won these 10. We'll give you 64 more."

So we had 74 row homes. We're from New York, we don't know Baltimore, and we're down there saying, "Wow, we're gonna open a second office and be in Baltimore and do this right." And they were giving us row homes for a dollar. Can't beat that, right?

Then we found out that the cost to renovate the homes is more than the cost that you could buy it for.

So even though they were giving it away for a dollar, once you put the money in, you couldn't get it out. And that came from the fact that the population of Baltimore kept going down and down and down every year.

So it made sense why you had vacant neighborhoods. You had less people. Baltimore had a million people in the '40s, and now it's 600,000 people.

Camila Almeida

That's a drastic change.

Ed Poteat

Right. That's why you have all those vacant pockets because people lived there one time, but they don't live there anymore. So that's one factor. If the population of New York started ticking down, for whatever reason, bad things would probably happen.

David Shamshovich

It would certainly help the affordable housing crisis. You'd have less people. But I get what you're saying. Less people means people are more bold to commit crimes, to do things. There's more housing than people, and so prices are going down, and then so on and so forth.

Are you seeing any trends here like that? I don't see any, but maybe there's something that you're seeing that indicates something like that.

Ed Poteat

Thankfully, no.

David Shamshovich

It's just growing, right? New York City.

Ed Poteat

It's just growing. And again, I'm a nerd with this stuff. I don't watch TV. I watch YouTube videos about urban planning, and that's my form of entertainment. I'm really a nerd with this stuff.

But someone had said what's happening now is you have more and more wealthy people moving to New York City. So the population in New York before COVID, in 2019, was 8.5. Now it's 8.3. So you would think that there would be less pressure on housing, right? But you have more pressure. What's happening?

And what they said is you have wealthier people coming in that have smaller households. So instead of a household of four living in a two-bedroom, paying \$5,000 a month in rent, you have a household of two living in that two-bedroom apartment because they can afford to pay \$5,000.

And so you have more households but less people, which means you have wealthier people coming in. So I don't see those trends, thank God, happening. Crime is going down from the heights of COVID. That's good. Crime is at its lowest, I think, ever, right? Or some number, like decades-low numbers. So thankfully those trends haven't kicked up yet.

485-X, CITY OF YES AND THE STATE OF DEVELOPMENT

David Shamshovich

I wanted to talk about the City of Yes changes, things that it's done for development, the 485-x program, the 99-unit problem, the fact that 421-a went away, and you had been pretty bold in stating what I agree with, which is this is not good, to paraphrase.

Give me the state of things as you see it. I guess maybe 485-x may not be, I'm not sure how relevant it is to what you're doing, because you're probably doing, like, an Article 11, I would think, or maybe 420-c.

Ed Poteat

Well, for the market-rate jobs, we have two in the pipeline. It is relevant. It mandates, from an economic point of view, that you build 99 units, which means that a lot of opportunities where you could build 150, 160 units, you just aren't.

And we're looking at that now. We have a site that we could put 130 units of market-rate housing, and we're like, we just can't. And we can't put two buildings. It's not that big. So we're gonna cap it at 99 units.

I think 485-x is stupid. And I hope no one from the unions here is listening. It was a compromise.

David Shamshovich

It was. We had somebody from the union on our last show, and that's exactly what it was. It was more of a stick-up. Because either you have a program or you have one that limits it to 99. The choice was either have something or not, and I think the preference was to have something, which we got.

But you're right, the 99-unit problem is a big deal. But has anybody actually tried to underwrite it? Have you attempted to try to figure out what those numbers actually look like if you did a building at 130 units? People assume so, but I've never actually seen what the numbers would actually look like.

Ed Poteat

Labor makes up 30 to 40% of your job. Labor under 485-x, I think, goes up around 50%.

David Shamshovich

So from 30, 40 to 50%. So talking about 10 to 20%. Basically eats into all your margins. Which is why no one's doing it, right? You're not getting any more than 9%, really, are you? Nine, 10%, like you're not really seeing those figures.

Ed Poteat

Right. You're not making, in New York City, more than 9, 10% on a market-rate job. If you're lucky, you're making 9, 10%. So that's without 485-x. Now you build 130 units, you can't make that work. And the condo market has been dead in New York for quite a while. So that's not an option. So it's just limiting development.

I think City of Yes is a dream. I think what Mayor Adams has done and what the Mamdani administration is now doing when it comes to zoning doesn't get as much fanfare. It's massive when it comes to creating opportunities.

They have something, and you know, I wasn't a fan of Mamdani, but I'm a huge fan of what they're doing around zoning. What they have with BSA now saying, "Okay, if you do affordable housing, we'll think about just giving you the density that you want." Massive. City of Yes, massive. Getting rid of SEQRA, which happened on the state level and the cities are now adopting it.

We had a rezoning that took three years. SEQRA took up maybe two of those years. Easy.

Ed Poteat

So now you can comfortably say, "I can get a rezoning done, start to finish, in 18 months," versus three years. That's massive. From that point of view, I think that the city's getting it right. But like everything government, they get one thing right and one thing wrong, and it kind of crosses out each other.

David Shamshovich

So 485-x, unfortunately, is one of those things that's not a policy, it's a statute that they had to kind of put in place. I don't see it going away anytime soon. They always say the agencies are saying, "Well, we're looking at it," but what are they gonna look at? The thing's on the books, and I'm perfectly fine to do 99 if I want to. I could do 199 units if I want to, and that's basically what we're seeing.

But we are seeing a break in terms of, for example, if somebody's doing, 300, 350, 400 units, then they're okay doing it. I sort of logically think, okay, maybe it's because it's bulk, and so that margin is different because the labor works differently given how many units. How does that work? Why is it that larger projects are working for that statute?

Ed Poteat

Larger projects south of 96th Street, even before 485-x, were pretty much union anyway. Same with downtown Brooklyn, south of 96th Street.

So if you're building, let's say in, and I don't know Brooklyn super well, but central Brooklyn, where there was market-rate development happening, the better parts of the Bronx, northern Manhattan, that weren't going union, those projects are now being capped because of the economics of 99 units.

David Shamshovich

And are you seeing land prices fall as a result? So if I'm buying a site, like you said, I could do 130, but now it's really 99, so I'm not gonna pay for a 130-unit site.

Ed Poteat

We're seeing a lot of opportunities as affordable housing developers.

David Shamshovich

That's what I'm saying. It's creating, it's giving a little opportunity. So you're an affordable developer. You're still doing the 99 units because you still have to consider those wages, right? Like if you're doing a project that's 150 units for affordable, you're not absolved from the requirement just because you're affordable housing.

Ed Poteat

You are if you're 100% affordable.

David Shamshovich

You're absolved from the 485-x requirements?

Ed Poteat

Then you fall into 420-c.

David Shamshovich

Oh, 420-c. If you're doing 420-c, yeah. But not if you're doing 485-x.

Ed Poteat

Right. But I mean, you're doing a mixed-income, and again, we don't do a lot of mixed-income projects. We do either market buildings or affordable buildings. So I don't know a lot about the economics around mixed-income buildings, partially affordable, partially market. But if you can take advantage of 420-c, then you could build as big as you want.

David Shamshovich

Because it's a totally different beast.

Ed Poteat

So we're seeing a little bit in the market, in those kind of fringe areas, the value coming down to saying, "Okay, let's then make it work for the affordable housing guys." Because for the market-rate guys, it's not gonna make sense if I have a 200-unit site to even market it as a market-rate project.

THE FUTURE OF AFFORDABLE HOUSING

Camila Almeida

Earlier this year, we worked with you on a big project in the Bronx, and you used two programs, both the MIH program under the City of Yes, and the LIHTC program. How was it merging two agencies, coordinating two different programs at the same time throughout the whole process?

Ed Poteat

A shameless promo to BBG. You guys made it very easy.

David Shamshovich

Nice, I love it. It was a tough one, and it was, I think, a one-off because now generally they're letting people off the hook, which is you can do an affordable housing regulatory agreement, you don't have to go through MIH. You guys got stuck in the in-between where they didn't have have a remedy for it. They didn't have the agreement ready.

And I spoke to them and I said, "Well, can't they just do this?" And no, they don't have the agreements ready. I'm like, it seems like a little bit of a waste.

Camila Almeida

There were a lot of arguments of us trying to convince you.

David Shamshovich

I know it was a struggle to try to merge the two because the languages were different, the agencies were different, the requirements were different.

Ed Poteat

No, but y'all really made it easy for us because we were scrambling for a second. I remember we were trying to close in the fall, and then all of a sudden someone at HCR kept saying, "Well, where are you with MIH?"

Camila Almeida

I remember that call.

Ed Poteat

And we were like, "All right, if we don't answer them, maybe they won't remember that they're asking for it." So we ignored them at first. Then next call, they're like, "So where are you with MIH? We need to get them on the phone call to close." And we were like, "Oh my God, oh my God, oh my God, this is not gonna close."

David Shamshovich

And then I got a call Friday afternoon.

Ed Poteat

Right. And then we called you guys saying, like, “Oh my God, how long is this process? We heard it was nine months, we heard it’s a year, a year and a half.” But we made it happen.

David Shamshovich

Luckily the agencies are extremely supportive of affordable housing, right? And they sort of made it work. But still, the process was, as you know, lengthy and not an easy one, and to some extent unnecessary.

What are you seeing now in terms of New York City, where there are opportunities for affordable housing, where land prices are falling, and maybe things that you’re looking at or projects that you’re working on that you want to talk about?

Ed Poteat

One, I think zoning is a big carrot that literally just came out in the spring in terms of SEQRA going away. For developers, that’s a big deal. And I think the opportunities to rezone sites now that weren’t quite there before is going to create a lot of opportunities.

And I think that we’ll see that over the years, more and more sites that were zoned R7 are now zoned R8 or R9. We’re looking at a project in the Flatlands, and I don’t know South Brooklyn a lot, but there is an owner who’s going from R3 to R7. And so it’s just creating all these opportunities for more density in a city.

I think that that’s a big opportunity. I tell my students, though, the way I’ve done affordable housing with tax credits and subsidies and understanding the agencies, it’s been the same way for 20, 25, 30 years. It really hasn’t changed.

So I implore them. I’m like, “Guys, get creative. Build a new track.” Whether it’s figuring out how to build cheaper, and I do hear firms trying to figure out how to design buildings so that you can come up faster and cheaper. Whether it’s how to use Passive House in a way to lower your energy costs, in a way that you can now capitalize that. I think it’s a big opportunity that people should look at.

So I’m hopeful there’s some zillennials or Gen Zs out there who listen to this and say, “Oh yeah, if you do this and use AI and do that and put this there, I can crowdsource money this way.” I’m serious. Just come up with creative ways. Because we’ve been doing the same thing for decades now.

And I think it’s time for the next generation to say, “Okay, I now know it differently, and I’m gonna apply these creative ways in ways that Gen X and older millennials wouldn’t think of.”

David Shamshovich

Yeah. I mean, listen, disruption is always good. I’m not sure if and how that’s gonna happen. I think it requires a lot of dedication, and you know who the up-and-comers are. You’re teaching them now, and there’s many out there hopefully who are listening. That’s one of the things that we want to implore.

We’ve taken up plenty of it, and you’ve been so kind with your time, but I still want to give you an opportunity. I know you have a couple of things you want to plug, particularly your social media, other things maybe that you’re working on that we didn’t get to discuss, potentially a new book, sequel.

Ed Poteat

So I’m trying to spread the gospel of affordable housing. I think it’s important. Check me out on Instagram at ed_poteat. ed_poteat. I’m interviewing people from the community, trying to get their sense and their thoughts on gentrification and affordable housing.

I’m a believer that affordable housing is the antidote to gentrification. So as we talk about how bad gentrification is in our communities, I think it even calls us more to really focus on affordable housing. So check me out on Instagram. Nothing else I’m plugging right now. That’s it.

David Shamshovich

You can also catch Ed at Columbia if you take a class. And of course, when this episode drops, I will give your information so people can reach out to you if they want to. It was great talking to you. This was fun. Thank you so much.

Ed Poteat

Thank you, guys.

David Shamshovich:

Thanks for listening to Ground Rules. To make sure you stay in the loop on all new episodes, please make sure to subscribe wherever you get your podcasts. For more on the show and BBG, make sure to visit bbgllp.com.